1812

1939

Economic Conditions
Governmental Finance
United States Securities

New York, May, 1939

General Business Conditions

THE month of April has been another period of unsettlement in business and the markets, with sentiment disturbed both by the menace of war in Europe and by the failure of domestic trade and production to show the Spring improvement for which the optimists had hoped. While retail trade has given generally satisfactory reports, new buying of both raw materials and manufactured goods has been sluggish, and with unfilled orders tapering off a number of the industries have either reduced their output moderately, or failed to make anticipated seasonal gains. The drop in steel mill operations has been greater than expected, and the suspension of bituminous coal mining in the Appalachian area, due to the strike, has cut coal output to about one-fourth the previous rate. Both of these industries contribute heavily to the aggregate of industrial production as measured by the composite indexes such as that of the Federal Reserve Board; thus it seems certain that the Board's index, which was unchanged at 98 from February to March, will be lower for April.

Prices of stocks and staple commodities weakened from the middle of March to the second week of April, dropping to the lowest levels since last Summer. Undoubtedly many business men, confronted by a world situation whose outcome is impossible to foresee, are looking to the markets for guidance, on the theory that the judgment of the best-informed people finds its earliest reflection there; and the declines have spread uncertainty accordingly. Of course this should work the other way also, after the unsettlement runs its course. But until there are good reasons either in foreign affairs or the domestic news for more confidence in the outlook business men evidently will continue reluctant to take risks. This is the same as saying that business spending and new investment will continue under restraint, and unfortunately business spending is what is most needed to start an upswing.

During the Munich crisis last September business in the United States was checked only briefly, and made a quick and spectacular recovery, but the situation this Spring is not a close parallel. Last Fall domestic business was moving forward under strong headway, supported by the urgent demand for goods which had sprung up after the long curtailment of production below consumers' requirements. Moreover, the crisis ended quickly, and in a manner raising hopes of genuine appeasement. The German move into Czecho-Slovakia in March, on the other hand, has been followed by one critical development after another, with the end not yet in sight; and the business upswing here had flattened out even before the new crisis arose. Naturally business men are better able to put off orders and commitments than they were while the Fall rush was on, and under the almost continuous tension of the past few weeks that has been the general policy.

Effects Here of Possible European War

Since the European situation compels business men to take into their calculations the effects upon their own affairs of a possible war, consideration of the question is evidently in order. The most common fear is that general alarm, and desire of foreign holders of American securities to turn them into cash, would result in heavy selling in the security markets. No one can foretell what the volume of selling might be, but there are many reasons for thinking that it would be less widespread, and less demoralizing, than at the outbreak of war in 1914. One strong reason is that there has been more warning of possible trouble, and more time for precautionary action. Never has the world been on notice for so long a time that a war threat hangs over the markets.

Europeans have large holdings of American securities, as they did in 1914, but in all other respects the situation is different. Even before the war menace appeared in 1914 the dollar was weak due to an unfavorable balance of current payments, and the amount of gold available to support the dollar was relatively small. Europe needed money, and this was the best market to raise it in. Europeans wanted

their money home, and they sought to turn their American securities into cash, and convert their balances into sterling and other currencies, to an extent which forced the closing of the Stock and other Exchanges and temporarily caused a sharp decline in the dollar.

By contrast the dollar is now buttressed by nearly $16 billions of gold, a figure which is fantastically in excess of any conceivable requirements; and the banks of the country, through the possession of $4 billions of excess reserves, are in position to pay out any amount that foreigners can withdraw without any considerable effect upon the general credit structure, and without recourse to the other devices that are available for cushioning deposit withdrawals. The fact that prices of Government bonds have moved to new high levels during this critical period is evidence of the strength of the credit situation.

Europeans have taken these factors into consideration in sending their funds here. One reason that they have large holdings of American securities is that, having warning of the war possibility, and giving consideration to conditions in their own countries and elsewhere in the world, they prefer to have their money here. Evidently people who send their money to this country for such reasons will want to keep it here, and while some may prefer cash to securities if the war menace becomes greater, there seemingly is no reason for such widespread liquidation as occurred in 1914.

In due course, to be sure, foreign governments would probably want to use the funds of their citizens here to pay for American goods, but in that case the money would not be withdrawn but spent here. The cashing in of securities for this purpose would presumably take place while business was feeling the stimulus of foreign orders, and therefore in a rising market. The developments in cooperation between governments during the past few years would doubtless be turned to good account in keeping the situation orderly.

Fear of Trade Disorganization

The second great fear is that the shock of war would disorganize all trade, and of course the effect would be in that direction. War stimulates the demand for some commodities at the expense of others. It closes some markets and opens others. It interferes with transportation and raises costs, and in other ways compels painful adjustments in the economic organization and disrupts accustomed trade relationships. The United States could not expect to be unaffected by these changes.

It should be recognized, however, that except for the cost and waste of operations in the field, and the wholesale shift of labor from productive to destructive work, the adjustment of the economic organization to a war basis, in the countries concerned, has already gone to lengths never before reached in time of peace. Of course the business of the totalitarian countries has been on a war basis for a long time; the allocation of labor and commodities among enterprises is in effect controlled by the state, and armament work and accumulation of reserve supplies have priority now, as if war were being waged. During the past month the democracies have taken further steps in that direction. More than half of the new British budget, which carries expenditures exceeding $6,000,000,000, is for defense measures, and the historic decision to make a beginning in compulsory military service is no less an indication of the burden upon the British people. The French Government has raised taxes to provide larger funds for defense and has decreed an increase in the work week from 40 to 45 hours, reminding the workers that Germans are working 60 hours a week, and that the move is necessary to "take the place of men who have already been called to the colors and ceased productive labor."

Thus if war comes the transition from peace to a war basis can hardly be as sharp or as catastrophic as in 1914. Even in the United States, where the overwhelming bulk of business is for peaceful purposes and organized with the expectation of continuing at peace, the preparations made for a shock during the past critical months will cushion it if it comes. Business men have been trying to see where they might be involved in difficulty or loss; and the measures taken to protect themselves, involving caution in commitments and liquidation of risky positions, indicate that the effects of an outbreak should be partly discounted. War or no war, it is likely that business here will receive some support, in the way of export orders, from the further growth in European armament expenditures. The British steel industry is again expanding toward capacity, and there are reports of steel orders coming this way.

It should be unnecessary to add that neither war nor armament requirements in preparation for it can possibly produce any business of lasting benefit to the United States. The great expenditures now being made support business activity both in Europe and in the over-seas markets where the European nations buy goods. However, the resulting appearance of good times is illusory. The expenditure is not producing goods which add to the comfort, health or living standards of the population; and it is financed by debt which is spreading anxiety, checking private enterprise, and driving capital out of productive use. The flight of capital to this country is evidence of the alarm. If the foreign money now here were employed in productive enterprise it would promote business recovery in every part of the world, but its concern is only for safety.

This country is deeply concerned with the world situation. The object of the Administration's policies is to help where it may in influencing the course of events away from the road to war before it is irrevocably entered. No other policy could serve the lasting interest of the United States. It is worth considering also that policies calculated to improve the economic situation in this country may contribute to maintenance of world peace. A business revival here, leading to increased purchases of foreign goods, would ease the economic pressure elsewhere, and the political strains that have grown up between the nations have originated largely from the depression of world business and trade.

Elements Supporting Domestic Business

It is not easy to appraise the domestic situation at a time when it is so much affected by external disturbance, for no one can say whether the slackening has been caused for the most part by the foreign news, or whether there were more domestic weaknesses than business observers generally believed. Moreover, the weather has been unseasonable, which makes interpretation of the retail trade and automobile sales figures difficult. If the war menace passes in the near future, it will be possible to judge the business prospect more accurately.

If the slowing down is due chiefly to postponement of commitments that will be made later it will not last long or produce a major recession, for the volume of business spending of the type that can be postponed was already low. Likewise commodity buying policies have been conservative since last Autumn. There is good statistical evidence that manufacturers' stocks of raw materials, and commitments for them, are low, and the same is true of stocks and commitments in retail and distributing channels. Some commodity markets show that buyers are in need of supplies. With all the depressing influences, purchases of copper and tin have been larger in April than in the preceding months, and lead business has held up well. The lower prices for copper have proved attractive.

In some lines factory stocks of goods in process and finished evidently leave room to take up slack, but they are hardly of a size to prove depressing unless consumption falls off sharply. The support given to consumer buying by Government payments and by public works expenditures will not be diminished by the foreign developments; and during the second and third quarters Government deficit spending will reach huge sums, substantially greater than in the first quarter. Government payments are holding farm income a little above last year, and a dollar will buy more than it did last year.

The mail order companies and variety chains have been doing an exceptional business. Sears, Roebuck sales in four weeks ended April 23rd were 22 per cent over last year, and the best in the history of the company. Department store sales have not improved as sharply, but April business has been close to seasonal expectations as compared with the previous months this year. Trade in general merchandise may be affected by fear, but not to the degree that business spending is affected.

Conditions in the Industries

Apart from the coal strike the chief industrial curtailment has been in steel, where operations have declined from the March peak of 56.1 per cent of capacity to 48.6 in the last week of April. The principal reason for the slackening is the drop in unfilled orders for automobile materials, but other buyers, except in structural material and tinplate, have taken less steel during the month. The situation may signify a further decline in the operating rate during May, but probably a moderate one, for production and orders have been brought into balance by most companies and there is little slack to take up in inventories. If the coal strike is not settled during the forepart of May it may compel a more pronounced curtailment than is now expected. This will apply to other industries as well as steel.

Automobile sales have been irregular and during the early part of the month were below expectations, causing a moderate downward revision of estimates of the year's output. More seasonable weather is reported to have brought improvement. Production has been held at about the March rate instead of showing the usual gain. With dealers well stocked the decline in the coming months may be more rapid than usual, for the 1940 models will be introduced earlier next Fall than in other recent years and the changeover period will come earlier accordingly.

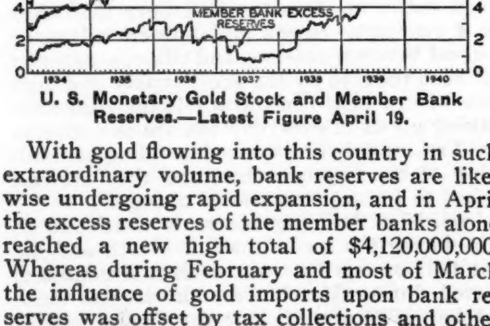
Operations in the consumer goods industries have been well maintained, supported by the steady volume of consumption and low inventories in distributors' hands. Despite unsatisfactory prices for goods, the talked of cotton mill curtailment is still little in evidence. Woolen mills continue busy, having made a much better start on the Fall lines than they did a year ago. Rayon mills are curtailing, as is usual between seasons, and silk consumption has been reduced by the short supply and high price of raw silk. On the whole the industries making goods of everyday use are as active as could reasonably be expected, pending a broadening of the improvement; and they are not looked to for any sensational change.

Awards of building contracts continued to gain during the second half of March and the first half of April. New residential contracts started during March were the largest since October, 1929, according to the Dodge figures. The volume of work contemplated also appears

to be the largest since 1929 and F.H.A. activity in mortgage insurance has run substantially ahead of last year. This holds encouraging promise of support to business during the months ahead. Machine tool orders also showed further improvement during March, but the April record may not be as good, in view of the discouraging influences upon new capital expenditures.

Money and Banking

The outstanding influence in the money situation continues to be the acute tension in Europe and consequent flight of capital and gold to the United States. Ever since the German move into Czecho-Slovakia in March, steamers from Europe have been bringing in as much gold as they can carry, representing not only private transfer operations but also shipments by central banks seeking safety for their reserves outside of the area of possible conflict. As a result of these movements, gold stocks here continue to increase with astonishing rapidity. Thus in the first four weeks of April they rose $554,000,000, making the increase over $1,000,000,000 for the year to date and approximately $2,700,000,000 since last July, before anxiety over European political conditions reached an advanced stage. Although it was no longer ago than March 16 that our monetary gold stock crossed $15,000,000,000 for the first time, already by April 26 it had climbed above $15,700,000,000, and from all indications will soon exceed $16,000,000,000. It should be added that these figures do not include gold earmarked here for account of foreign central banks, reported to be in the neighborhood of $770,000,000 on April 30.



U. S. Monetary Gold Stock and Member Bank Reserves.—Latest Figure April 19.

With gold flowing into this country in such extraordinary volume, bank reserves are likewise undergoing rapid expansion, and in April the excess reserves of the member banks alone reached a new high total of $4,120,000,000. Whereas during February and most of March the influence of gold imports upon bank reserves was offset by tax collections and other Treasury operations having the effect of shifting funds from the market to the Reserve Banks, the reverse has been true in recent weeks. Since March 22 the Treasury has been drawing down its balances in the Reserve Banks, thus supplementing the influence of gold upon reserves and making possible an increase of some $760,000,000 in excess reserves in a period of five weeks.

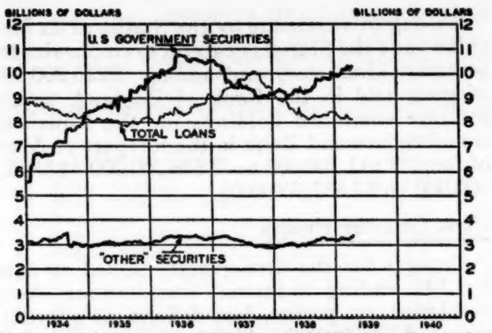
It is of interest to observe, in projecting forward the probable course of reserves, that on April 26 the Treasury still had spendable balances in the Reserve Banks amounting to $913,000,000, not to mention $700,000,000 of free gold in its own vaults which could be converted into Federal Reserve funds at a moment's notice.

Huge Money Supplies Unused

That the huge accumulations of gold and surplus bank funds represented above are put to so little use continues to be one of the significant features of the situation. Only in the case of currency is there evidence of important demand, and this is traceable to war fears rather than to normal trade requirements. During April outstanding currency continued to show more than seasonal increases, and on the 26th was approximately $500,000,000 greater than a year ago. Ever since the Munich crisis foreign hoarders have been taking considerable quantities of dollar currency, in some cases through banking agencies abroad and in others through local institutions for storage in safe deposit boxes in this country. During March, banks in this city were called upon to ship $22,000,000 of currency to Europe, an amount far out of the ordinary, and the movement has kept up during the past month. Apparently in some instances foreigners prefer ownership of dollar currency to ownership of dollar balances or dollar securities, possibly on the theory that currency could be concealed more easily in the event of war. A further manifestation of European uneasiness and desire for dollars has been a noticeable increase recently in sales abroad of dollar travelers checks.

Demand for bank credit remains slack, and banks continue to find the chief outlet for their funds in government securities. During the four weeks ended April 19 figures of the weekly reporting member banks disclosed a further moderate rise in commercial loans (including a growing proportion of so-called "term loans") to a point $113,000,000 above the February low for this year, but still approximately $1,000,000,000 lower than in the Fall of 1937 when they were by no means high as measured by standards of years prior to 1929. Loans to brokers and dealers in securities declined, and in conjunction with total loans reached a new low for the year.

With loans declining, reporting banks, in their search for earnings, increased substantially their holdings of long-term Treasury



Loans and Security Holdings of Weekly Reporting Member Banks.—Latest Figure April 19.

bonds, while combined holdings of U. S. Government issues of all classes were the largest since early 1937. Investments in other securities also increased, though remaining in the aggregate less than a third the total in "Governments."

Deposits scored heavy increases during the period, rising to new high levels on bank security purchases, Treasury disbursements and inflow of funds from abroad.

High Grade Bonds Stand Up

The bond market over the past month made an impressive showing, both as to stability and activity in new financing, being supported by the vast and increasing surfeit of available funds. Lower grade issues were sensitive, of course, to news developments, but high grade obligations stood up sturdily in the face of existing uncertainties. In the "Government" market, prices displayed some tendency to fluctuate at times, but rallied easily and at the close of the month reached new high levels.

New financing too was able to make progress despite alarms and some postponements beyond originally scheduled offering dates; and with a total around $250,000,000 for corporate securities alone made a decidedly respectable record. Included among the corporate offerings were two sizable stock issues and approximately $80,000,000 of securities involving new money. Following are some of the more prominent issues of the month:

Corporate Bonds	
National Steel Corp. $50,000,000 1st 3s of 1965 @ 99, and $15,000,000 notes	$65,000,000
Gatineau Power Co. 1st 3¾s of 1969 @ 98¼	52,500,000†
Texas Corp. deb. 3s of 1959 @ 101	40,000,000*
Commonwealth Edison Co. conv. deb. 3½s of 1958 offered to stockholders at 100	25,283,300
Corporate Stocks	
Eastman Kodak Co. 225,092 shares common stock @ $127.50 per share	28,699,230*
Consolidated Gas Electric Light & Power of Baltimore 223,063 shares 4½% pfd. stock @ $112.50, offered to stockholders	25,094,587
Municipals	
New York State 1-40 year 1¾% serial bonds @ prices to yield 0.20 - 1.85%	20,000,000

† Plus $10,000,000 bonds offered in Canada, and $7,300,000 serial notes placed with banks in U. S. and Canada. * New money.

The New York State bonds were especially notable as establishing a new low record cost for financing for the State. Purchased at an average interest cost to the State of 1.7398 per cent, they were reoffered to the public at prices ranging from 0.20 to 1.85 per cent for maturities from 1 to 40 years. The spectacle of 40-year bonds selling at 1.85 per cent return to the investor emphasizes anew the extraordinary monetary conditions prevailing.

The Foreign Exchanges

In the foreign exchanges, the steadiness of spot rates under influence of official controls was in contrast with wide fluctuations during the September crisis. Sterling held within a fraction of a cent of $4.68½ all month, with correspondingly little movement in leading Continental rates. Where the pressure for dollars showed up was in the heavy gold engagements and in the forward exchange markets. The spread between spot and futures was particularly wide in the case of sterling and belgas, the discount on forward pounds ranging during April from 1¾ to 3 cents for three months.

The French franc has been the star performer of the principal European currencies, both spot and forward rates holding remarkably steady in the face of general European uncertainties. Action by the French Government late in the month in transferring 5,000,000,000 francs in gold from the French Stabilization Fund to the Bank of France is evidence that France has been a gainer on balance in the international settlements. That this should be so in a period of such great international tension demonstrates how completely the situation in France has changed since the present Government came to power last year, and particularly since the failure of the general strike which appears to have marked the turning point in French confidence. Undoubtedly the external dangers threatening the country have exerted an important influence towards strengthening the national unity.

Contrasting with the position of the franc, belgas were under heavy pressure, reflecting not only general European anxieties but also internal political difficulties and fears of devaluation advocated by certain groups. Since the middle of February, the National Bank of Belgium has lost over 800,000,000 belgas ($138,000,000) in gold and foreign exchange, prompting a rise in the discount rate from 2½ to 4 per cent on April 7. Repatriation of French capital figured in the Belgian losses, and was a factor also in gold losses amounting to $111,000,000 by the Swiss National Bank and $140,000,000 by the Netherlands Bank between the end of February and the latter part of April.

Of gold received in the United States between March 15 and April 21, $413,000,000

was from Great Britain, $94,000,000 from Belgium, $38,000,000 from the Netherlands and $42,000,000 from Switzerland. While shipments of this magnitude must necessarily reflect an important drain on the gold resources of the exporting countries, caution is essential in any attempt to determine from reported gold movements the precise extent of losses sustained by the various control funds in stabilizing operations. We have referred earlier to the action of foreign central banks in shifting a portion of their gold holdings to locations of greater safety and to the building up of foreign earmarked gold stocks in this country. It should be noted also that Canada had $150,000,000 of gold under earmark for foreign account at the end of February, and that earmarked stocks at the South African Reserve Bank totaled nearly $200,000,000 at the end of March, while some transactions of this nature have been reported in India.

In the case of Great Britain, the dishoarding of privately held gold has been a large factor in the gold shipments; moreover, British shipments are to some extent balanced off by gold flowing into the London market from various sources abroad, as indicated by the following table showing United Kingdom gold movements, both inward and outward, by months from last October to recent date:

Gold Movement of United Kingdom
(In Thousands of Pounds Sterling)

	Imports	Exports	Excess Exports
1938, Oct.	29,447	73,522	44,075
Nov.	3,939	24,440	20,501
Dec.	7,451	21,738	14,287
1939, Jan.	4,704	12,524	7,820
Feb.	3,535	35,121	31,586
Mar.	12,823	68,311	55,488
Apr. 1-27	61,968	87,861	25,893

Source: Bullion Letters of Samuel Montagu & Co. and London Gazette.

Just how much allowance should be made for the foregoing factors in determining British official gold losses since the last disclosure of Equalization Account holdings (as of September 30, last) is impossible to say. At that time the Account held gold amounting to £152,000,000, and in January of this year it received an additional £350,000,000 transferred from the Bank of England. In the issue of April 15, the London Statist undertakes to estimate changes in the position of the Account over the past six months as follows:

> At the time when this transfer was made, at the beginning of this year, the drain of foreign funds from London was estimated to have reduced the gold in the Account to about £70,000,000, and after the operation with the Bank of England the Account was thus estimated to hold gold to the amount of about £420,000,000. Since then the Account has bought newly mined gold and acquired some Belgian gold to the tune of between £35,000,000 and £40,000,000, while the gross losses of the Account through its operations in the bullion and foreign exchange market can roughly be placed at £70,000,000. This would leave the existing gold holding between £385,000,000 and £390,000,000.

Taking this estimate by the Statist at its face value (and the Statist is careful to emphasize its tentative character) and adding £226,200,000 of gold held in the Bank of England, would indicate combined holdings for the Equalization Account and Bank in the forepart of April of from £611,200,000 to £616,200,000 ($2,863,000,000 to $2,887,000,000).

First Quarter Profits

Reports for the first quarter issued to date by 305 leading industrial corporations show combined net profits, less deficits, of approximately $206,000,000, which is more than double the $94,000,000 total reported by the same companies in the first quarter of 1938, when earnings had fallen to a relatively low level and more than one-third of these companies were operating at a deficit. As compared with the fourth quarter of 1938, when business activity was expanding and profits of this group of companies had risen to $240,000,000, there was a decrease of 15 per cent.

Net worth of the companies in this tabulation aggregated about $10,700,000,000 at the beginning of this year, upon which the first quarter profits were at an annual rate of 7.7 per cent, against a rate of 3.4 in the first quarter of 1938 and 11.9 in the first quarter of 1937.

Comparative figures for the first quarters of 1938-39 are given in the accompanying summary, classified by major industrial groups. As pointed out heretofore, the published reports of a limited number of the larger corporations indicate merely the trend of earnings, and do not provide an accurate measure of average rate of earnings for industry as a whole. They are not comparable with the Treasury Department "Statistics of Income," which cover all corporations but are available only after a considerable time.*

The sharpest percentage gains in profits of leading companies this year were, for the most part, in the durable goods industries which had suffered the sharpest drop in sales and profits last year. Among the major groups in which such a reversal of trend occurred were iron and steel, automobiles and parts, machinery, equipment and other metal products. Steel earnings were low in relation to operations, which averaged 54 per cent of capacity for the quarter; the reduction in prices of sheets which was made for a time last Fall, and which applied to part of this quarter's billings, is one of the chief reasons. The lower prices, however, helped the earnings of automobile and other manufacturing companies which bought sheets for future delivery when the reduction was announced.

An important exception to the improvement in profits this year is found in the petroleum

*See January, 1939 issue of this Letter, page 9, for ten-year summary, 1927-36.

PROFITS OF LEADING CORPORATIONS FOR THE FIRST QUARTER

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends. — Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

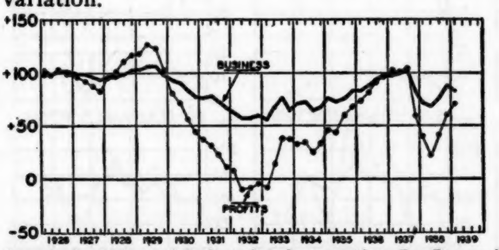
No.	Industrial Groups	Net Profits First Quarter 1938	1939	Per Cent Change†	Net Worth January 1 1938	1939	Annual Rate of Return % 1938	1939
4	Food—baking	$ 3,916	$ 3,714	— 5.2	$211,670	$208,821	7.2	7.1
16	Food products—misc.	18,468	19,833	+ 7.4	692,029	718,909	10.6	11.0
7	Beverages	1,967	2,773	+41.0	102,393	116,720	7.7	9.5
12	Textiles and apparel	D-578	3,186	+	140,361	139,508	......	9.1
11	Paper products	1,841	1,333	—27.6	152,177	152,745	4.8	3.5
25	Chemicals, drugs, etc.	24,531	43,063	+75.5	1,319,340	1,361,318	7.4	12.6
7	Petroleum products	10.271	4,425	—56.9	722,732	725,943	5.7	2.4
11	Stone, clay and glass	554	4,056	+	262,548	256,773	0.8	6.3
1	Iron & steel—U. S. Steel	D-1,292	661	+	1,592,212	1,298,907	......	0.2
25	Iron & steel—other	D-3,357	11,091	+	1,631,485	1,600,315	......	2.7
6	Metal—building equip.	109	583	+	83,655	80,149	0.5	2.9
12	Metal—electrical equip.	10,570	10,810	+ 2.3	600,508	602,651	7.0	7.2
8	Metal—hardware, etc.	913	3,269	+	82,524	81,948	4.4	16.0
24	Metal—machinery	2,653	3,697	+39.4	193,034	190,503	5.5	7.8
7	Metal—office equipment	1,926	1,763	— 8.5	94,338	93,825	8.2	7.5
9	Metal—railway equipment	1,048	2,445	+	423,690	416,185	0.9	2.3
20	Metal products—misc.	3,268	5,279	+61.5	139,755	152,831	9.3	13.8
1	Motor vehicle—Gen. Motors	8,234	53,178	+	992,305	1,027,817	3.3	20.7
7	Motor vehicle—other	D-1,023	12,301	+	246,148	245,091	......	20.1
21	Motor vehicle parts	D-1,823	4,924	+	176,743	172,783	......	11.4
26	Misc. manufacturing	933	2,728	+	240,150	236,939	1.5	4.6
260	Total manufacturing	83,129	195,112	+	10,099,797	9,880,681	3.3	7.9
8	Mining—metal	5,037*	3,377*	—33.0	190,047	190,950	10.6	7.0
6	Mining—coal	D-1,254	D-574	......	154,132	143,498	......	......
7	Mining—misc.	3,563	2,895	—18.7	116,763	116,252	12.2	10.0
7	Trade	D-1,348	207	+	98,241	98,583	......	0.8
6	Service—amusements	3,496	3,976	+13.7	146,402	148,448	9.6	10.7
11	Service—misc.	1,630	1,486	— 8.8	120,551	119,020	5.4	5.0
305	Total	$94,253	$206,479	+	$10,925,933	$10,697,432	3.4	7.7

D- Deficit. * Before certain charges. † Increases or decreases of more than 100 per cent not computed.

industry, where stocks of gasoline and other products have been large. Selling prices of petroleum products declined more during the year than did prices of crude oil, thereby reducing profit margins.

Most of the groups other than petroleum showed increases in their combined profits. Within these groups, however, a rather surprising number of individual companies (one out of every four) showed decreased profits instead. About 15 per cent of the leading companies thus far reporting lost money in the first quarter this year, against 35 per cent a year ago.

The longer-term trend of profits is indicated by the accompanying chart, which is based upon the rate of return on net worth of 200 leading companies and is adjusted for seasonal variation.



Quarterly Index of Industrial Corporation Profits and The Annalist Index of Business Activity. 1926 = 100.

Sales of the manufacturing corporations which report quarterly figures show in most cases an increase over the first quarter last year, but the changes were highly uneven, as may be seen from the accompanying list

% Change in First Quarter Sales, 1938-1939

Manufacturing		Trade	
Air Reduction Co.	+10.9	American Stores Co.	— 2.1
Allis-Chalmers Mfg.	—13.5	Barker Bros. Corp.	+ 4.7
Amer. Colortype Co.	+ 0.3	Bond Stores	+31.5
Atlas Powder Co.	+ 0.9	Consol. Retail Stores	+ 3.5
Baldwin Locom've Wks.	—46.0	Crown Drug Co.	— 6.9
Beatrice Creamery Co.	—10.3	Edison Bros. Stores	+ 8.8
Caterpillar Tractor Co.	+15.9	M. H. Fishman Co.	+ 6.1
Diamond Shoe Corp.	+10.4	W. T. Grant Co.	+ 6.1
E. I. du Pont & Co.	+27.9	H. L. Green Co.	+11.8
Eastman Kodak Co.	+11.9	Interstate Dept. Stores	+ 8.7
Flintkote Company	+ 0.6	Jewel Tea Co.	+ 2.6
Florence Stove Co.	+13.8	S. S. Kresge Co.	+ 3.3
General Electric Co.	+ 5.3	S. H. Kress & Co.	— 2.3
General Foods Corp.	+ 6.6	Kroger Groc. & Bak.	— 0.5
General Motors Corp.	+46.8	Lane Bryant, Inc.	+ 0.7
Hercules Powder Co.	+11.8	Lerner Stores Corp.	+ 5.2
Hinde & Dausch Paper	+ 0.7	McCrory Stores Corp.	+ 4.2
Interchemical Corp.	+23.6	McLellan Stores Corp.	+ 6.7
Johns-Manville Corp.	— 0.4	Melville Shoe Corp.	+18.2
Keystone Steel & Wire	+18.3	Montgomery Ward	+14.9
Kimberly-Clark Corp.	— 3.8	G. C. Murphy Co.	+11.3
Glenn L. Martin Co.	—19.0	Natl. Tea Co.	— 6.1
Mead Corporation	— 2.2	Neisner Bros., Inc.	+14.5
Minn.-Honeywell Reg.	+18.7	J. J. Newberry Co.	+ 7.2
Natl. Cash Register	— 1.7	J. C. Penney Co.	+ 9.0
Otis Elevator Co.	—16.4	Peoples Drug Stores	+ 3.8
Phillips Petroleum Co.	— 1.5	Reliable Stores Corp.	+ 4.4
Raybestos-Manhattan	+35.0	Rose's 5-10-25c Stores	— 1.9
Ruberoid Company	— 6.7	Safeway Stores, Inc.	+ 0.6
Sharon Steel Corp	+57.5	Schiff Company	+10.8
Shell Union Oil Corp.	— 3.0	Sears, Roebuck & Co.	+12.0
L. C. Smith & Corona	+ 5.8	Spiegel, Inc.	+25.2
Standard Brands	+ 0.8	Union Premier Food	+30.2
Studebaker Corporation	+73.4	Walgreen Company	+ 5.6
Thompson Products	+58.0	Western Auto Supply	+26.8
United Aircraft Corp.	+ 6.3	F. W. Woolworth Co.	+ 3.5
Wesson Oil & Snow	—31.0		
Westinghouse Electric	— 1.8		
Wheeling Steel Corp.	+34.3		
Yellow Truck & Coach	— 1.0		

of 40 of the larger companies. Combined sales of these companies increased from $795,000,000 to $938,000,000, or by 18 per cent.

Sales of the chain store, department store and mail order organizations given in the list increased from $642,000,000 to $685,000,000, or by 7 per cent.

At the bottom of this page is a series of charts which summarize the quarterly sales, net profits and percentage of profit to sales of 60 leading manufacturing corporations since 1935, with the first quarter of 1939 partly estimated. Although changes in volume of sales are probably the most important single influence upon profits in the manufacturing industries, numerous other important factors affecting profit margins include changes in selling price of products, costs of raw materials, labor costs and taxes. Moreover, quarterly statements of income are subject to adjustments at the end of the fiscal year for revaluation of inventories, receivables, plant and equipment, investments, etc., as well as reserves for various purposes, which often distort the apparent operating profits.

Railroad and Utility Earnings

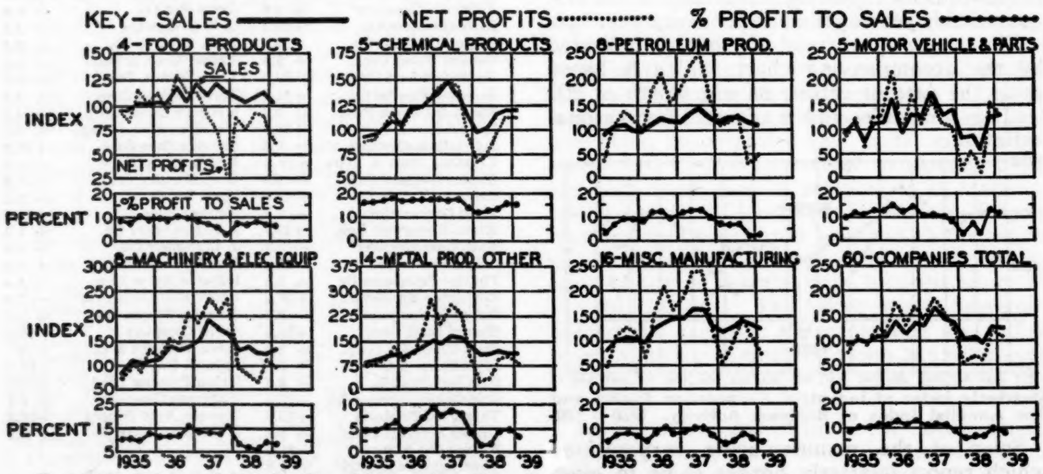
There were increases in both railroad freight and passenger revenues over those of a year ago, and the total operating revenues of the 141 class 1 systems during the first quarter increased by about 11 per cent. Net railway operating income (after operating expenses and taxes, but before interest) showed a sharp gain, but was still short of covering interest requirements for the railroads, considered as a whole. The first quarter net deficit after charges was reduced from $106,000,000 last year to an estimated $40,000,000 this year.

A group of 25 of the larger public utility systems supplying electric, gas and other services, reporting for the twelve months ended March 31, showed gross operating revenues practically the same as in the corresponding period of last year, but net income after charges was 1 per cent lower.

The American Telephone & Telegraph Company and its principal telephone subsidiaries, reporting for the twelve months ended February 28, had a slight gain in total operating revenues as compared with the same period last year. This gain was more than offset, however, by an increase in taxes, so that net income declined by 9 per cent. Taxes imposed upon the Bell System by federal, state and local governments have grown rapidly in recent years, both in number and in rates, and last year rose $9,000,000 to a total of over $147,000,000. This was equivalent to 14 per cent of total revenues, and to one-third of the total payroll. At the annual meeting of shareholders of the telephone company held last month, it was stated by the President that taxes this year are expected to increase by another $9,000,000. This would carry the total tax burden to around $8.00 per share of stock, of which over $2.00 per share represents the increase in taxes since 1935.

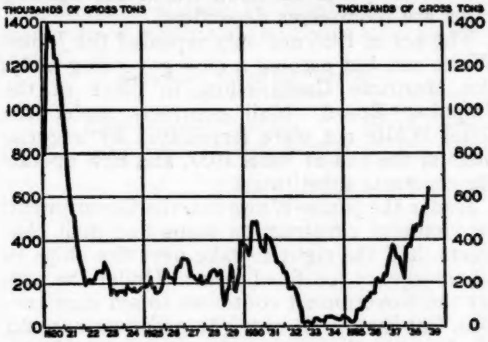
The Rise in American Shipbuilding

One industry in the United States that is rapidly forging ahead at the present time is shipbuilding. Excepting the frenzied period of World War construction, when 90 ships are said to have been launched in one day (July 4, 1918) nothing comparable to present activity has been known in all our history. It may be doubted that many of our people know what is going on. On March 1, last, this country was building 319 merchant vessels aggregating 640,000 tons, compared with 151 vessels aggregating 384,000 tons on the same date a year



Quarterly Sales and Net Profits of 60 Leading Manufacturing Companies, 1935 Average = 100. Also Percentage of Profit to Sales.

previous. The accompanying diagram, tracing the course of merchant shipbuilding in the country since the close of the War, reflects the vigor of the upturn in the past three years.



Tonnage of Merchant Vessels Under Construction In the U. S.
(Source — Dept. of Commerce)

In commercial ships alone, Lloyd's figures indicate that the United States has more construction under way than any country except Great Britain. In tanker tonnage, comprising approximately one-third of our total merchant tonnage under construction, we lead the world. Moreover, at the end of 1938 there were 38 naval vessels under construction in private yards, with displacement tonnage of 208,000. Including coastal, lake and river craft of all sizes, and navy yard operations, it is estimated that the shipyards in the United States are at present building around 1,000,000 tons of new vessels.

In consequence of this activity, private shipyards which have been closed since the war are being reopened and at least two of the major shipyards are planning extensive expansion and improvement of their facilities. Employment in navy and private yards is now in the neighborhood of 80,000 workers, and is expected to exceed 100,000 next year when the building program gets more fully under way. According to a recent statement by Thomas M. Woodward, Vice-Chairman of the U. S. Maritime Commission, ships already ordered and those contemplated for this year under the program will involve expenditures of approximately $140,000,000 for shipyard labor, $175,000,000 for purchase of materials and $78,000,000 assignable to overhead and profit. This is exclusive of naval expenditures and expenditures for other vessels not included in the Commission's plan.

Our Glorious Years on the Sea

Before describing further this sudden outburst of shipbuilding, it is in order to say something of our earlier career at sea and of the evolution of the industry. They illustrate the evolution of all industry in the same period. The American colonies were fringed along the coast, had fine ship timber, and building and sailing ships early became leading industries. At the beginning of the War of the Revolution, more residents of Massachusetts were supported by these industries than by agriculture. The colonies sold ships in England, whose best timber had been cut off. Although their ships were comparatively small, in 1810 the United States had 980,000 tons of carrying capacity engaged in foreign trade, against 1,019,000 tons in 1913, and was carrying 91.5 per cent of its own exports and imports.

From 1800 to 1840 the principal mail and passenger business between American and British ports was carried in American sailing vessels. The apex of American shipbuilding before the Civil War was reached in 1855, when 2027 vessels were launched, and sales abroad were 65,887 tons, chiefly bought for the British marine. American "clipper" ships were the fastest sailing ships in the world. They were in every sea and needed no subsidies.

After the Civil War iron or steel steamships rapidly became the principal carriers of mail and passengers. Moreover, partly because of the absence of suitable shipbuilding timber in Great Britain, iron foundries and other iron works developed more rapidly in Great Britain than in the United States, so that by the time this country was actively engaged in the building of vessels of iron and steel, Great Britain had made such advances that we could not compete. Also, rising wages in the United States placed United States shipping at a disadvantage against foreign shipping, and by 1900 the American flag had almost disappeared from foreign ports.

This, practically, was the situation up to the World War, except that in 1891, an act of Congress offered American registry and mail contracts to foreign-built ships on condition that ships of equal tonnage should be constructed in the United States.

Also mention should be made of the fact that important sums of American capital have been invested in foreign shipping companies. In 1901 an aggregate of 672,458 tons were reported as operating under British, Belgian and Norwegian registry. In August, 1914, Congress authorized admission to United States registry of foreign-built ships owned by American citizens, subject to certain conditions, and much of this tonnage was admitted.

The War and Post-War Construction

The imperative need for ships of our own to provide supplies for our Army in France led to the establishment of the United States Shipping Board, with its subsidiary, the Emergency Fleet Corporation, in 1917. They built about 2,312 ships of over 13,600,000 tons capacity, and at the end of the War the country had 18,462,000 tons of ships, public and private.

After the World War, we found ourselves with a government-built fleet, which had cost over $3,000,000,000, and with new ambitions as to our place on the seas. In 1920 Congress passed a new marine act, which announced a "permanent peace-time shipping policy." The Shipping Board was authorized to sell or lease the existing ships, and to make loans for private construction. The Postmaster - General was authorized to make mail-carrying contracts. Fifteen ships were built under this act in eight years, which was so disappointing that in 1928 the Jones-White marine act was passed, offering more liberal terms to shipping companies. Forty-one ships were constructed and 19 reconditioned under this act, at an expenditure of $170,000,000 and 41 mail contracts were made under it, creating many new shipping routes. The ships were not coming fast enough, and the Jones-White act was superseded by the maritime act of 1936, which is the driving force behind the present activity.

Allowing for the progress constantly made in metallurgy and ship-construction, the useful service of a ship is estimated as not more than twenty years. As our war construction began in 1917, this period has now elapsed. Furthermore, much of that fleet has not been in use and has deteriorated more than if in service. Vice Chairman Woodward, of the Maritime Commission, in the address quoted above, referred to a survey made by that Commission in 1937 as showing that by 1936 our overseas fleet had fallen to fourth place of the eight foremost maritime nations as regards tonnage, sixth place in speed, and seventh, or next to last, in age. Thus, if the fleet is to be maintained in a state of efficiency, practically all of it requires replacement. The Commission summarized replacement needs as follows:

Ocean Going Vessels, 2000 gross tons and over	No. of Vessels	Gross Tons	% Obsolete No.	Tons
Total vessels (May 31, 1937)	1,422	8,407,000	—	—
20 yrs. old or more in 1937	400	2,500,000	28	30
20 yrs old or more by 1942	1,305	7,402,000	92	88

These replacements, however, will increase the efficiency of the fleet and reduce transportation costs. The Commission reported that "due to higher construction and operating costs, our shipping services cannot compete in international trade without governmental subsidies;" also that the present subsidized lines "show little likelihood of being able to make needed replacements under present conditions."

The Merchant Marine Act of 1936

Evidently sentiment in favor of an aggressive merchant marine policy was growing in Congress from 1920 to 1936. The modernization and enlargement of our merchant fleet was urged on several grounds, such as the importance of maintaining and increasing our foreign trade, the need of adequate shipping facilities for our exports in the event of a major war, and, above all, the national defense. It is argued that with one of the largest navies in the world, it would be imprudent to be without the auxiliary vessels upon which the fighting ships are themselves dependent.

The act of 1936 not only repealed the Jones-White act, but created a new governing body, the Maritime Commission, in place of the Shipping Board. Mail contracts under the Jones-White act were terminated by negotiations at the end of June, 1937, and new operating contracts substituted.

Under the Jones-White act, the Government, by virtue of construction loans and mail contracts, had the right to take over the ships in an emergency, on fixed terms. Under the new act the Government continues to aid construction, but makes an outright grant on account of the contribution to the national defense. Thus, the Government, after approving the plans of a new ship, will grant the difference between building costs in American and foreign shipyards up to 50 per cent of the foreign cost. An organization receiving such assistance must finance at least 25 per cent of the net construction costs to the buyer, but may borrow the difference from the Government and amortize the loan over twenty years. Shipping subsidies may also be given to all American vessels less than twenty years old, engaged in foreign trade and in direct competition with foreign lines, the amount varying according to conditions prevailing on different overseas routes.

A Long Range Program: "A Ship a Week for 500 Weeks"

In conference with the Navy the Maritime Commission agreed upon at least 95 vessels immediately and 500 vessels in the next ten years at a cost of about $1,250,000,000. This accounts for the change that suddenly has come over the shipbuilding industry.

The annual quota of 50 ships was exceeded in 1938, but it included the construction of 32 vessels on the Maritime Commission's account, which are to be turned over to private operators. There have already been launched the first five of twelve tankers which were constructed by the Standard Oil Company of New Jersey with the Maritime Commission paying about 28 per cent to defray the expense of certain national defense features. Again quoting Mr. Woodward, Vice-Chairman of the Maritime Commission:

> Two of these tankers have already been acquired by the Navy. During trials they developed a speed of nearly 20 knots per hour loaded with almost 150,000 barrels of oil, thus making them the fastest ships of their type of which there is any reliable record.

Building at Newport News for the United States Lines is also the largest liner ever laid down in an American yard, the S.S. "America," whose launching is scheduled for next September. Last month the first of a series of twenty cargo ships was launched by the Sun Shipbuild-

ing and Dry Dock Company, Chester, Pa., the first vessel of this type built in this country in the last eighteen years.

The following table shows the tonnage of our merchant marine, its employment in the years named, and its share of our total foreign trade:

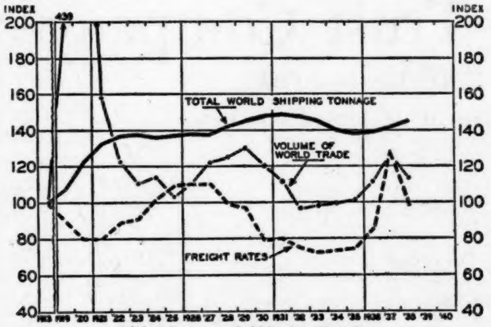
American Merchant Marine
(000 omitted)

June 30	Employment of Tonnage: Foreign Trade	Coastal Trade	Grand† Total	Foreign Trade Carried in U.S. Vessels: Actual Tonnage	% of Total
1913	1,019	6,817	7,887	*	*
1919	6,665	6,201	12,907	*	*
1922	10,720	7,163	18,462	44,783	51
1929	6,905	9,525	16,476	43,152	40
1932	5,070	10,727	15,839	21,471	36
1933	4,700	10,313	15,060	19,372	33
1934	4,597	10,219	14,862	22,202	33
1935	4,560	10,049	14,654	22,865	32
1936	4,159	10,300	14,497	21,813	28
1937	3,834	10,799	14,676	24,246	25

† Also includes fishing boats.
* Statistics not available.

Shipping and Economic Nationalism

The last few years of accelerated ship building all over the world, linked with military programs, brought world tonnage to 67,846,000 gross tons as of June 30, 1938, which was nearly 3,000,000 tons more than in 1935. At the same time carrying capacity of shipping has been increased by greater speed and better utilization of cargo space. Since the volume of world trade declined in 1938, after reaching practically the 1929 volume in 1937, the maladjustment between the supply and the demand for shipping has become greater. More than 4,000,000 gross tons of shipping were again laid up last Summer and, as will be seen from our chart, freight rates lost practically all the gain made late in 1936 and in 1937.



Shipping and World Trade
(1913 = 100)

Note: World shipping tonnage, June 30, each year, Lloyd's Register of Shipping. Volume of trade, annual average, Institute for Business Research, Berlin, 1913-1929; League of Nations, 1929-1938. Freight Rates, annual average, London Economist, latest figure, March, 1939, 91.0.

According to Lloyd's Register of Shipping, the world launchings in 1938 reached 3,033,000 tons, an increase of 12.7 per cent over 1937 and the highest annual total since the 1918-21 War emergency boom. The British share was only 34 per cent of newly launched shipping as compared with 55 per cent in 1929 and 61 per cent in 1909-13. On the other hand, new German tonnage in 1938 was the highest since 1922 and with Italy and Japan amounted to 33 per cent of the total.

A World Economic Problem

Unless the total of international trade increases proportionately, the rise of the United States from its 1914 position as an ocean carrier to its prospective position under the building plan, will mean a serious loss of income to nations that have been the chief carriers in the past. It is one of the lasting effects of the War, and may be likened to the War's effects upon international trade in cotton and cotton goods. of which we know something ourselves.

It has been asked how the United States will gain by acquiring a larger share of a very sick business? The shipbuilding race in the 'twenties resulted in an excess of shipping facilities, and unprofitable freight rates have prevailed since, save some recovery in 1936-37, now lost. The costs of maintaining an American fleet is high, in comparison with the cost of other fleets, as shown by our abandonment of the sea from 1860 to 1917. After all, Great Britain, the Netherlands, France, Italy and the Scandinavian countries, and others, have been on the sea a long time. They are bred to it; it is their livelihood, and they are not likely to abandon it. The universities of the world long have been teaching that no end of business may be had by exchanging services in mutually advantageous trade, but economic considerations carry little weight in present international politics, and policies, even though they make the standard of living of millions.

The answer being given to the above question is that we have a great navy built for self-defense, and that we need a merchant fleet to support the Navy and to carry our exports. Self-defense is uppermost. Mr. Joseph Kennedy, our Ambassador to London, and former Chairman of the Maritime Commission, is competent to state the case, and has done so in few words. As quoted by the London Economist, he has said:

> Shipping has ceased to be business in most countries and has become instead an adjunct of national defense. We sometimes find it expedient to do things for ourselves which could be done better and more cheaply by the people of other nations.

The truth of this comment is recognized in every country, as is the folly of the armament race, of which the shipping race inevitably has become a part. And to crown the absurdity of this mutually destructive warfare, are the tariffs, quotas, "dumping," and retaliatory trade policies which afflict the very intercourse that the vast shipping expenditures are designed to promote. The logical end will be reached when each nation carries its exports in its own ships.

The National City Bank of New York

Head Office* · 55 WALL STREET · *New York

Condensed Statement of Condition as of March 31, 1939

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS

Cash and Due from Banks and Bankers		$ 716,104,731.97
Bullion Abroad or in Transit		2,222,608.45
United States Government Obligations (Direct or Fully Guaranteed)		619,014,733.67
Obligations of Other Federal Agencies		47,472,695.49
State and Municipal Securities		105,374,718.31
Other Securities		72,909,545.74
Loans, Discounts and Bankers' Acceptances		491,670,970.39
Customers' Liability for Acceptances		13,797,293.23
Stock in Federal Reserve Bank		3,720,000.00
Ownership of International Banking Corporation (Including Paris Office)		8,000,000.00
Bank Premises		45,908,191.35
Other Real Estate		754,287.23
Real Estate Loans and Securities		10,101,703.30
Other Assets		1,556,014.91
Total		$2,138,607,494.04

LIABILITIES

Deposits		$1,967,755,199.27
Liability on Acceptances and Bills	$30,137,869.28	
Less: Own Acceptances in Portfolio	12,340,806.18	17,797,063.10
Items in Transit with Branches		2,779,654.80
Reserves for:		
Unearned Discount and Other Unearned Income		3,153,621.90
Interest, Taxes, Other Accrued Expenses, etc.		6,688,841.41
Dividend		1,550,000.00
Capital	$77,500,000.00	
Surplus	46,500,000.00	
Undivided Profits	14,883,113.56	138,883,113.56
Total		$2,138,607,494.04

Figures of Foreign Branches are as of March 25, 1939.

$47,176,917.02 of United States Government Obligations and $30,902,952.77 of other securities are deposited to secure $51,795,709.69 of Public and Trust Deposits and for other purposes as required by law.

(Member Federal Deposit Insurance Corporation)

City Bank Farmers Trust Company

Head Office* · 22 WILLIAM STREET · *New York

Condensed Statement of Condition as of March 31, 1939

ASSETS

Cash and Due from Banks	$26,780,324.81
United States Government Obligations (Direct or Fully Guaranteed)	27,751,209.78
Obligations of Other Federal Agencies	4,162,193.84
State and Municipal Securities	6,751,031.98
Other Securities	2,770,992.97
Loans and Advances	4,819,382.66
Stock in Federal Reserve Bank	600,000.00
Bank Premises	4,100,906.25
Other Real Estate	549,606.86
Real Estate Loans and Securities	7,235,639.21
Other Assets	1,924,635.51
Total	$87,445,923.87

LIABILITIES

Deposits	$59,177,472.63
Reserves	3,411,721.05
Capital	10,000,000.00
Surplus	10,000,000.00
Undivided Profits	4,856,730.19
Total	$87,445,923.87

$1,520,000.00 of United States Government Obligations are deposited with public authorities for purposes as required by law.

(Member Federal Deposit Insurance Corporation)